The Sustainable Finance Law Review

Editor
Anna-Marie Slot

The Law Reviews

THE SUSTAINABLE FINANCE LAW REVIEW

Editor
Anna-Marie Slot

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URÍA MENÉNDEZ ABOGADOS, SLP

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PREFACE

Sustainable finance is a relative youngster in the world of finance, but it is growing up fast. Public and private financing of sustainable/green projects, or those with provisions in line with borrowers' and issuers' environmental, social and governance (ESG) commitments, has exploded.

Since the signing of the Paris Agreement in 2015, more than 100 countries have committed to net zero emissions targets. Countries have also acted at a national level with ambitious target-setting and nationally determined contributions (NDC) pursuant to the Paris Agreement. They are not alone. By mid-2022, more than one-third of the world's largest publicly traded companies had net zero targets. Financial institutions have also engaged with various policies introduced to enshrine ESG commitments, in terms of both their own lending targets and the carbon emissions linked to those targets. Investors at both retail and institutional levels increasingly look to the financial markets as an important lever in achieving such targets.

For over three decades the United Nations has brought together almost every country on earth for the global climate summits – known as the Conference of the Parties (COP). At COP26 in 2021, private finance showed up in force to play its role in the transformation of the business ecosystem as we know it. Precisely what that role entails is a live debate and the discussions regarding the purpose of sustainable finance cover a wide spectrum of issues – from greenwashing, to the fundamental shift of credit including the risks and opportunities of ESG considerations. We saw that debate play out in real time during COP27.

Notwithstanding ongoing considerations about the purpose of sustainable finance, financial market participants have reacted by creating a wide variety of financial products marketed as sustainable, green or ESG-friendly. The rapid increase in both supply of and demand for sustainable investment products has, at times, resulted in a lack of consistency, transparency and reliability of disclosures and metrics. Governments and regulatory bodies are increasingly focused on imposing guidelines and frameworks to address these issues.

Although sustainable finance continues to elude strict definition at present, significant efforts are being made globally to ensure quality and transparency in the industry, to impose consistent frameworks such as the International Sustainability Standards Board (ISSB) and disclosure requirements such as those of the Task Force on Climate-related Financial Disclosures (TCFD) that support comparability and interoperability among firms and products, and to provide investors with sufficient information to monitor the impact of their investments.

In this inaugural edition we aim to:

a provide a snapshot of the current state of sustainable finance and the status of regulatory efforts across multiple jurisdictions; and

b track the evolution of sustainable finance and outline key trends for the near future.

I thank all of the contributors for their expertise, hard work and dedication in producing this volume.

Anna-Marie Slot
Ashurst LLP
London
December 2022

Chapter 5

JAPAN

Hiromi Hattori, Yuichi Miyashita and Takuma Kaneko[1]

I INTRODUCTION

The Japanese sustainable finance market is not an exception in the context of the rapid growth observed in the global sustainability finance market.

Since 2014, when the first green bonds were issued by a Japanese company,[2] the number of issuances of green bonds deals has increased steadily and reached 99 per year in 2021.[3] The total value of green bonds issued in 2021 was recorded to be approximately ¥1,865 billion. Similarly, it was in 2015 when the first sustainability bonds were issued by a Japanese company, and the number of issuances of sustainability bonds deals increased steadily, reaching 39 per year in 2021 (the total value of sustainability bonds issued in 2021 was approximately ¥1,000 billion).[4]

Sustainability-linked bonds are rather new in the Japanese market, and it was only in 2020 when the first sustainability-linked bonds were issued in Japan. However, both the number of deals and the issuance values have grown rapidly, and as at 26 September 2022, both the number of deals and issuance value for sustainability-linked bonds in 2022 had already exceeded the corresponding statistics of 2021. In particular, the issuance value in 2022 has more than doubled from that in 2021.[5]

The first green loan was introduced in the Japanese market in 2017. Although the green loan market is rather small compared to the green bond market, both in terms of the number of deals and the value, the market has steadily expanded. As of 26 September 2022, 96 green loan deals with a total value in excess of approximately ¥311 billion have been announced in 2022.[6]

It was in 2019 when the first sustainability-linked loans were introduced in the Japanese market. In 2021, the number of deals involving sustainability-linked loans reached 56, and the total value of such loans exceeded approximately ¥357 billion. As of 26 September 2022, the number of deals of such loans announced in 2022 reached 105, more than double that in 2021.[7]

1 Hiromi Hattori and Yuichi Miyashita are partners and Takuma Kaneko is an associate at Nagashima Ohno & Tsunematsu.
2 These green bonds were issued by the Development Bank of Japan Inc.
3 http://greenfinanceportal.env.go.jp/en/bond/issuance_data/market_status.html.
4 http://greenfinanceportal.env.go.jp/en/bond/issuance_data/market_status.html.
5 http://greenfinanceportal.env.go.jp/en/bond/slb_issuance_data/slb_market_status.html.
6 http://greenfinanceportal.env.go.jp/en/loan/issuance_data/market_status.html.
7 http://greenfinanceportal.env.go.jp/en/loan/sll_issuance_data/sll_market_status.html.

As for social finance, the number of deals involving social bonds was announced to be 53 in 2021, and the total value of such social bonds issued in 2021 was approximately ¥1,162 billion.[8] No statistical data about social loans is available.

The above trends are backed by the global movement towards a carbon-neutral society. Further, the covid-19 outbreak since early 2020 has affected the social finance market. As compared to 2019, both the number and value of social bonds in 2020 have more than doubled.

At the same time, the framework of sustainable finance is rapidly developing in Japan. While there is no specific legislation that sustainable finance market players are required to comply with, these players have been voluntarily complying with the guidelines issued by governmental bodies, such as the Ministry of Environment (MOE), the Financial Services Agency (FSA) and the Ministry of Economy, Trade and Industry (METI). The Japanese guidelines are designed to follow the internationally recognised sustainability finance principles released by the International Capital Market Association (ICMA) and the Loan Market Association (LMA), and they have been updated periodically – that is to say, whenever the principles that the Japanese guidelines are based on have been updated. In this regard, the guidelines do not have penalty provisions that are applicable to a case where, for example, an issuer issues certain bonds without complying with the relevant guidelines. The guidelines do not work as hard law, but rather as soft law, and they are respected by the sustainable finance market players.

II YEAR IN REVIEW

During the period from 2021 to 2022, there have been various developments in connection with sustainable finance in Japan, both in terms of the voluntary guidelines applicable to sustainable finance instruments and the disclosures of sustainability information of listed companies.

i Voluntary guidelines of sustainable finance instruments

The Green Bond Guidelines and Green Loan and Sustainability-Linked Loan Guidelines issued by MOE in 2020 were revised to reflect the contents of the latest version of the Green Bond Principles (ICMA; June 2021), the Green Loan Principles (LMA; February 2021) and the Sustainability-Linked Loan Principles (LMA; March 2022), and the new version was released in July 2022. In addition, MOE newly developed the Sustainability-Linked Bond Guidelines based on the Sustainability-Linked Bond Principles (ICMA; June 2020) and subsumed it into the new version of the Green Bond Guidelines and Green Loan and Sustainability-Linked Loan Guidelines. Furthermore, the FSA issued the first guidelines for social finance, the Social Bond Guidelines, in October 2021 based on the Social Bond Principles (ICMA; June 2021). For details of these guidelines, refer to Section IV.

ii Disclosure of sustainability information

The working group on corporate disclosure of the Financial System Council of the FSA (disclosure working group) issued a report on the enhancement of disclosure of non-financial information in June 2022. Based on the report, the FSA announced in November 2022

8 https://www.jsda.or.jp/sdgs/hakkou.html.

a draft of amendments to the relevant regulations to require listed companies to disclose sustainability information in their annual securities reports under the Financial Instruments and Exchange Act (FIEA). For details of this development, see Section V.

In addition, various voluntary guidelines relating to the disclosure of sustainability information are being developed. Among others, in August 2022, a study group on the visualisation of non-financial information established by the Cabinet Secretariat released the Guidelines for Visualisation of Human Capital Information, which outline the basic approach towards an effective disclosure of human capital information of companies.

III REGULATION AND POLICY

i Governance regime

Japan had promoted various initiatives on carbon neutrality even before the Paris Agreement came into effect. For instance, in July 2015, Japan submitted to the United Nations Framework Convention on Climate Change Secretariat its nationally determined contribution target to reduce greenhouse gas emissions in 2030 by 26 per cent from 2013 levels. To further accelerate these efforts after the entry into force of the Paris Agreement, then Prime Minister Yoshihide Suga declared in his policy speech in October 2020 that Japan will aim for carbon neutrality by 2050. Under the Suga administration, domestic efforts to decarbonise have made rapid progress, with the announcement of an ambitious goal of a 46 per cent reduction in greenhouse gas emissions in 2030 (compared to 2013 levels), which is consistent with the goal of carbon neutrality in 2050.

Under the current Kishida administration, decarbonisation continues to be an important policy issue for Japan. In Prime Minister Fumio Kishida's policy speech in December 2021, he stated: 'We will forge our clean energy strategy by grasping both the supply and the demand sides in an integrated manner, including innovations and capital investments not only in energy supply but also on the demand side.'

In terms of the sustainable development goals (SDGs), generally speaking, after the adoption of the SDGs by the UN Sustainable Development Summit held in September 2015, the Japanese government established the SDGs Promotion Headquarters in May 2016, which is headed by the Prime Minister, to effectively achieve the SDGs. In December 2016, the SDGs Implementation Guiding Principles were established. The Principles, revised in December 2019, are part of a mid-to-long-term national strategy for achieving the SDGs in Japan and internationally by 2030.

ii Regulators

Sustainable finance policies in Japan involve a variety of organisations, including ministries, government agencies and private sectors. Here, we introduce some of the most important organisations and list the main frameworks in relation to sustainable finance that they have developed.

Organisation	Framework/principle/document/policy
FSA	· Stewardship Code (2014, revised in 2017, 2020) · Corporate Governance Code (2015, revised in 2018 and 2021) · Social Bond Guidelines (2021) · Basic Guidelines on Climate Transition Finance (2021, jointly with METI and MOE)

Organisation	Framework/principle/document/policy
MOE	· Green Bond and Sustainability-Linked Bond Guidelines (2017, revised in 2020, 2022) · Green Loan and Sustainability-Linked Loan Guidelines (2020, revised in 2022) · Basic Concept of Impact Finance (2020) · Green Impact Assessment Guide (2021)
METI	· Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation (2017, revised in 2022) · The Guide for SDG Business Management (2019) · Climate Innovation Finance Strategy (2020) · Roadmaps of transition finance for each industrial sector
The Tokyo Stock Exchange	· Corporate Governance Code (2015, revised in 2018 and 2021) · Practical Handbook for ESG Disclosure (2020)

Other than the above, the Ministry of Land, Infrastructure, Transport and Tourism has outlined roadmaps on transition finance focusing on the transportation industrial field. In addition, various industrial associations, such as the Japan Securities Dealers Association and Japanese Bankers Association, have compiled various proposals and reports in relation to bonds and loans, respectively.

IV SUSTAINABLE FINANCE INSTRUMENTS

i Types of sustainable finance instruments

In Japan, instruments of sustainable finance have been constantly developed in accordance with the study and practice of other markets. There are several types of environment-related financing instruments, as follows. Green finance is used to finance green projects (projects related to renewable energy, energy conservation, clean transportation, etc.); sustainability finance, funds of which are used for both green projects and social projects, is used to finance sustainability projects; and sustainability-linked finance, which encourages the realisation of ambitious sustainability performance targets (SPTs) in light of the fact that financial or structural characteristics, or both, can vary depending on whether the issuer achieves the SPTs. In addition to these, a new category called transition finance has emerged in recent years to promote financing for steady low carbon initiatives, such as energy conservation in sectors where greenhouse gas emissions are difficult to reduce, and for transition initiatives, such as long-term research and development of decarbonisation. There is also growing interest in blue finance, which uses funds for a specific purpose that involves the aquatic environment, such as preventing marine pollution and protecting marine resources. From a social-related perspective, social finance is used to finance social projects (projects related to infrastructure development, childcare and nursing care support, employment and the health of employees, etc.).

These types of financing mainly take two forms: one is to raise funds from capital markets by issuing bonds, and the other is to raise funds through loans from financial institutions (mainly banks). In addition to bonds, there can also be equity finance in the form of stocks and other securities.

However, these types may overlap, which makes them difficult to categorise. Therefore, in Japan, as described in the next section, principles and guidelines have been developed based on international principles and guidelines, and the requirements for each type of financing and its relationship with the other types of financing have been organised. Taking the relatively new transition finance as an example, the Basic Guidelines on Climate Transition Finance labels three categories of financial instruments as transition finance:

a financial instruments (bonds or loans) that meet the four elements[9] of disclosure recommended in the Climate Transition Finance Handbook by ICMA and the proceeds of which shall be used for specific purposes (when the proceeds are not used for green projects but the process follows the existing principles and guidelines);

b financial instruments (bonds or loans) that meet the four elements, set targets in line with the transition strategy and change their financial or structural characteristics, or both, depending on the achievement of predefined targets, and the proceeds of which can be used for general corporate purposes; and

c financial instruments that meet the four elements and follow the existing Green Bond Principles and the Green Bond Guidelines (when the proceeds are used for green projects).

The guidelines also noted that regardless of (a) through (c) above, financial instruments that fulfil the four elements of transition finance may be recognised as transition finance.

ii Principles and guidelines

There is no legislation in Japan that defines the criteria and requirements for specific types of green finance, social finance, sustainability finance, sustainability-linked finance or transition finance. However, the following principles and guidelines have been developed by relevant Japanese ministries in accordance with international ones for reference in arranging such financing.

Contrast chart in respect of bonds

Type of bond	ICMA	Japan
Green bond	Green Bond Principles	Green Bond Guidelines
Social bond	Social Bond Principles	Social Bond Guidelines
Sustainability bond	Sustainability Bond Guidelines	Green Bond Guidelines[10] and Social Bond Guidelines[11]
Sustainability-linked bond	Sustainability-Linked Bond Principles	Sustainability-Linked Bond Guidelines
Transition bond	Climate Transition Finance Handbook	Basic Guidelines on Climate Transition Finance

Contrast chart in respect of loans

Type of loan	LMA and others	Japan
Green loan	Green Loan Principles	Green Loan Guidelines
Social loan	Social Loan Principles	–

9 The Climate Transition Finance Handbook by ICMA provides four elements (Element 1: issuer's climate transition strategy and governance; Element 2: business model environmental materiality; Element 3: climate transition strategy to be 'science-based' including targets and pathways; and Element 4: implementation transparency).

10 The Green Bond Guidelines apply to sustainability bonds to the extent that the proceeds of the sustainability bonds are allocated to green projects.

11 The Social Bond Guidelines apply to sustainability bonds to the extent that the proceeds of the sustainability bonds are allocated to social projects.

Type of loan	LMA and others	Japan
Sustainability loan	–	–
Sustainability-linked loan	Sustainability-Linked Loan Principles	Sustainability-Linked Loan Guidelines
Transition loan	–	Basic Guidelines on Climate Transition Finance[12]

Each of the principles and guidelines provide four or five core components. The core components that the principles and guidelines for green social, and sustainability finance have in common are 'use of proceeds', 'process for project evaluation and selection', 'management of proceeds' and 'reporting'. The reporting component is also a core component of sustainability-linked finance; however, as proceeds of sustainability-linked finance can be used for general purposes, use of proceeds is not one of its core components. Rather, as sustainability-linked finance is a financial instrument for which the financial or structural characteristics, or both, can vary depending on whether the issuer achieves predefined sustainability targets, 'selection of key performance indicators', 'calibration of sustainability performance targets', 'bond/loan characteristics' and 'verification' are provided as key components in the principles and guidelines.

It is noteworthy that the latest Green Bond Guidelines and Green Loan Guidelines provide viewpoints that can be referred to by bond issuers or borrowers in judging whether a certain project has a clear improving effect on the environment, which are not seen in the Green Bond Principles and the Green Loan Principles.

These principles and guidelines are not legal norms; therefore, no legal penalties will be imposed if, for instance, financing labelled as a green bond does not meet some of the elements of the Green Bond Principles by ICMA and the Green Bond Guidelines by MOE. However, the main purpose of these principles and guidelines is to ensure the market's confidence in these types of financing by acting as a check against bonds and loans that may be traded as 'greenwash', which are bonds and loans that may be perceived as being green despite having no environmental benefits. Since the goal is to ensure confidence in financing and to attract sufficient funds from the market, market players voluntarily originate bonds and loans in compliance with these principles and guidelines, and it has become common practice to do so in Japan.

V SUSTAINABLE DISCLOSURE REQUIREMENTS AND TAXONOMY

i Disclosure by companies

In Japan, under the FIEA, listed companies and certain other companies generally must file annual securities reports with the local finance bureau within three months of the end of each fiscal year. In June 2022, the disclosure working group published a report proposing to amend the disclosure requirements for annual securities reports under the FIEA to introduce a new section for the disclosure of sustainability information. Based on the report, the FSA announced in November 2022 a draft of amendments to the disclosure rules under the FIEA. The new section will be comprised of four elements: governance, strategies, metrics and targets, and risk management, which are based on the framework of the TCFD and the

12 While these guidelines are written based on cases for bonds, the relevant concepts can also be applied to loans.

exposure drafts of the sustainability disclosure standards of the International Sustainability Standards Board (ISSB). The FSA's draft provides that the disclosure of strategies and metrics and targets should be only required if the relevant reporting company has determined that they are material, while governance and risk management should be disclosed by all reporting companies. Among various sustainability issues, the discussion by the disclosure working group focused on climate change, human capital and diversity. For climate change, the FSA's draft provides no specific disclosure standard, but the Sustainability Standards Board of Japan is expected to participate in the development of the ISSB disclosure standards for international comparability of climate change disclosures. For human capital and diversity, the FSA's draft provides that human resource development policies, policies on improving the workplace environment, gender pay gap, ratio of women in managerial positions and ratio of male workers taking childcare leave will be added to disclosure items. The amendments to the disclosure rules based on the FSA's draft are expected to be enacted during 2022, and the initial mandatory disclosures on these matters will be required to be made via annual securities reports for the fiscal year ending March 2023.

In addition, the Tokyo Stock Exchange revised the Corporate Governance Code in June 2021. The Code adopts a principle-based approach, under which each listed company is to substantively interpret and apply the Code according to its own circumstances without being limited by the text of the Code itself. The revised Code provides that companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. In particular, the Code provides that companies listed on the Prime Market should collect and analyse the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations or an equivalent framework that is expected to include the ISSB disclosure standards.

ii Disclosure by investors

In contrast to these corporate level disclosures, legal requirements for the disclosure of sustainability information by asset managers or asset owners, or on an investment product basis, have not been introduced yet in Japan; however, the following initiatives are being developed.

In terms of disclosure by investors, in March 2020, the Stewardship Code of Japan was revised to address sustainability considerations, including that institutional investors should clearly specify how they take the issues of sustainability into consideration in their stewardship policy, corresponding to their investment management strategies. Further, in July 2022, the Expert Panel on Sustainable Finance of the FSA published the second report on the direction of policy measures for sustainable finance. The report emphasises that it is important for institutional investors, especially asset owners, to deepen their knowledge about how sustainability initiatives should be considered in their basic policies on investment from the perspective of increasing the growth and sustainability of assets under their management and expanding the benefits for the ultimate beneficiaries over the long term.

For ESG mutual trusts, the second report provides that asset managers that engage in ESG investment are expected to (1) formulate their own clear ESG policies and continuously work to enhance their investment processes, (2) establish an organisational structure necessary for implementing appropriate ESG investment, and (3) actively provide appropriate information and disclosure, in a manner consistent with the actual investment process. In relation to this, in May 2022, the FSA published its supervisory expectations for asset managers that provide ESG mutual trusts.

VI ESG DATA AND REPORTING

i Reporting by companies

As discussed in Section V, the FSA's draft of the amendments to the disclosure rules provides that strategies and metrics and targets with respect to sustainability are only required to be disclosed in annual securities reports if the relevant reporting company has determined that they are material. In terms of greenhouse gas emissions, there is no legal requirement to disclose information on greenhouse gas emissions in annual securities reports; however, the FSA expects that reporting companies will proactively disclose information on Scope 1 and 2 greenhouse gas emissions, considering the materiality of the information based on the relevant companies' business models and business environment. While such expectation on the part of the FSA does not include Scope 3 greenhouse gas emissions, there was discussion by the members of the disclosure working group to the effect that information on Scope 3 greenhouse gas emissions is useful.

The Act on Promotion of Global Warming Countermeasures requires certain business operators that produce considerably high greenhouse gas emissions to report to the government information on Scope 1 and 2 greenhouse gas emissions, and the government publishes the information annually. This measure is not for the purpose of disclosure to investors but is a regulatory purpose for global warming countermeasures.

ii ESG evaluation and data providers

Recently, the role of ESG evaluation and data providers has been increasingly important based on the expansion of sustainable finance. The providers' evaluations and data are used for, among other things, decisions on investment in securities by institutional investors, creation of ESG indices and engagement with companies. In July 2022, the FSA published a draft Code of Conduct for ESG Evaluation and Data Providers. The Code addresses issues regarding ESG evaluation and data providers, such as transparency of evaluations and potential conflicts of interest. The Code does not constitute laws or regulations that uniformly require all ESG evaluation and data providers to comply with the Code, but rather is designed to be a voluntary code on a principle basis, where the FSA calls for providers to express their support for the Code, and the providers that support the Code will either comply with the Code or explain the reasons for their non-compliance with a particular item. The Code sets forth principles, guidelines and concepts with respect to various matters, such as securing the quality of the service of ESG evaluation and data provision; managing independence and conflicts of interest; and ensuring transparency of methodologies and processes for the evaluation.

VII SUSTAINABLE FINANCE INCENTIVES

The government offers various kinds of incentives to promote sustainable finance.

i Financial incentives for costs for second-party opinions of sustainable finance issuers

MOE and METI, through their outside executive body, provide subsidies to rating agencies that provide second-party opinions to sustainability finance issuers, or to consulting firms that provide various consulting services for green finance. By the government's provision of the aforementioned subsidies, companies that intend to raise funds through sustainable finance are relieved of the burden of costs for the second-party opinions required under the relevant principles and guidelines. These financial incentives are intended to make it easier for the companies to utilise sustainable finance instruments.

ii Transition finance interest subsidy

METI has offered an interest subsidy project for transition loan borrowers since 2021. The borrowers are required to:

a obtain certification by an outside rating agency that the transition loan satisfies both the Basic Guidelines on Climate Transition Finance and the Sustainability-Linked Loan Guidelines; and

b apply for and obtain certification of their plan from the certified government ministry.

METI will offer the interest subsidy in relation to approximately ¥1 trillion in loans in total, for a period of three years.

iii Sustainable finance model project certification

MOE sponsors the Green Finance Model Project and solicits cases that conform to the Sustainability-Linked Bond (Loan) Guidelines and should be regarded as models of green finance. METI sponsors the Transition Finance Model Project and solicits cases that conform to the Basic Guidelines on Climate Transition Finance and should be regarded as models of climate transition finance. In certifying the cases selected as model projects, the government bears the costs for the assessment of the conformity of those cases to the relevant guidelines and publicises information about those model cases on its website.

iv Development of roadmaps for promoting transition finance

METI developed a roadmap to provide a concrete direction for the transition toward achieving carbon neutrality in 2050 for greenhouse gas-intensive industries. METI has released roadmaps for seven industrial sectors. In other industrial sectors, such as the international shipping, domestic marine transport and aviation sectors, there are roadmaps and other documents, issued by the Ministry of Land, Infrastructure, Transport and Tourism, which indicate technologies and directions toward carbon neutrality that can be used or followed for transition finance.

It is assumed that companies will refer to the roadmap when considering climate change measures using transition finance. The roadmap is expected to assist financial institutions in determining whether a company's strategies and initiatives toward carbon neutrality qualify for transition finance when the company raises funds.

VIII GREEN TECHNOLOGY

i Green innovation fund

Toward the goal of achieving carbon neutrality by 2050, it is necessary to make structural changes in the energy and industrial sectors and to invest in green innovation. In 2021, METI established the green innovation fund, a ¥2 trillion fund, as part of the New Energy and Industrial Technology Development Organisation. The green innovation fund supports, for 10 years, companies and other organisations that will implement projects that are aimed at realising ambitious 2030 targets (performance, amount of installation, price, CO_2 reduction rate, etc) in the priority fields for the government's green growth strategies. The priority fields include offshore wind power, solar power, geothermal power, hydrogen and fuel ammonia. The eligible project must include innovative and fundamental R&D elements that are worthy of being commissioned by the government.

The green innovation fund requires persons in management at companies and other organisations seeking support to show their commitment to tackling the 2030 targets as management issues. To secure this, the green innovation fund may terminate support and require a partial refund of commission fees if the relevant companies or other organisations are not sufficiently committed to such efforts; and the fund introduces incentive measures, such as contingent fees depending on goal achievement levels and other criteria.

ii Digitally tracked green bonds

In June 2022, JPX Market Innovation & Research, Inc, an affiliate of Japan Exchange Group, Inc, issued digitally tracked green bonds through a security token offering. The bonds utilise blockchain technology to improve transparency of data and efficiency of data collection, thereby addressing issues that have been raised by both issuers and investors of green bonds around the transparency of data and complexity of the data collection process needed for green investments. The mechanism automatically measures the amount of power generated by renewable power generation facilities, converts it into an amount of CO_2 reduced, and records on a security token platform the amount of generated power and reduced CO_2. The investors can access the data recorded, and thereby the transparency and efficiency of green projects are expected to improve.

IX CLIMATE CHANGE IMPACT

i Progress in reduction of greenhouse gas emissions

As discussed in Section III, in 2021 the government announced its ambitious goal of a 46 per cent reduction in greenhouse gas emissions in 2030 (compared to 2013 levels). According to the progress report issued by Global Warming Prevention Headquarters in August 2022, the total volume of greenhouse gas emissions in FY2020 was reduced to 1.1 billion t-CO_2, which is 78 per cent of the total volume of greenhouse gas emissions in FY2013 (i.e., a 22 per cent reduction has been achieved).

ii Climate change-related litigations

Unlike in the US or in Europe, there has been no noteworthy litigation directly requesting the government or Japanese companies to take certain actions for climate change (e.g., litigation alleging that the government policy in relation to climate change is not sufficient, litigation requesting a company to take certain effective actions to reduce its volume of greenhouse gas emissions). There are, however, several cases pending in Japan requesting an injunction against the operation or construction of coal-fired power plants.

iii Climate and transition risk management frameworks

At the time of writing, there is no legislation or any guidelines in Japan prescribing rules for climate and transition risk management frameworks with which companies in general are required to comply. In July 2022, the FSA published Supervisory Guidance on Climate-related Risk Management and Client Engagement, which provides viewpoints in supervisory dialogues with financial institutions regarding their climate-related risk management and their engagement with clients to support the responses of clients to climate-related opportunities and risks. This guidance is non-binding and serves as a baseline for supervisory dialogues between the FSA and financial institutions.

See Section V for the disclosure requirements regarding risk management in the context of disclosure of sustainability information by reporting companies.

X OUTLOOK AND CONCLUSIONS

To achieve the goal of carbon neutrality by 2050, the government is formulating various measures to vitalise the sustainable finance market. In addition, as it is key for listed companies to provide investors and other stakeholders with sufficient sustainability information to improve their corporate value, the formulation of the rules and guidelines relating to the disclosure of sustainability information is progressing rapidly.

It will be important for sustainable finance market players, including their advisers, to pay close attention to movements relating to sustainable finance and sustainability information disclosures.

Appendix 1

ABOUT THE AUTHORS

HIROMI HATTORI

Nagashima Ohno & Tsunematsu

Hiromi Hattori is a partner at Nagashima Ohno & Tsunematsu. Her main areas of practice are banking and finance, private equity, M&A, acquisition finance and other commercial transactions. She has more than 10 years' experience in both finance and corporate matters. She worked for a global trading company between 2017 and 2018 as a seconded in-house counsel, where she was involved in a variety of cross-border commercial transactions in the oil and gas industry. She is recognised as a 'Next Generation Partner' in *The Legal 500 Asia Pacific 2022* (banking and finance) and in *The Best Lawyers in Japan 2023* (private equity, private funds and venture capital law).

YUICHI MIYASHITA

Nagashima Ohno & Tsunematsu

Yuichi Miyashita is a partner at Nagashima Ohno & Tsunematsu. He handles a wide variety of capital market transactions, including sustainable finance, IPOs, equity and debt primary offerings, secondary follow-on offerings, third-party allotments, block trades and transactions of class shares, warrants and convertible bonds, in both domestic and international markets, utilising his experience at the equity capital market division of a major investment bank. He has also advised on corporate disclosure, including when relating to ESGs and SDGs, financial regulations and compliance, M&A transactions, corporate governance and general corporate matters. He is recognised as a 'Rising Star Partner' in *IFLR1000,* 31st edition and 32nd edition (capital markets: equity and debt), and in *The Best Lawyers in Japan* 2022 and 2023 (capital markets law).

TAKUMA KANEKO

Nagashima Ohno & Tsunematsu

Takuma Kaneko is an associate at Nagashima Ohno & Tsunematsu. He handles a wide variety of finance transactions, including acquisition finance, syndicated loans, structured finance, trusts, sustainable finance, equity and debt primary offerings, third-party allotments, transactions of class shares, and convertible bonds, in both the domestic and international markets. He has also been advising on corporate disclosure, financial regulations and compliance, and general corporate matters.

NAGASHIMA OHNO & TSUNEMATSU

JP Tower, 2-7-2 Marunouchi
Chiyoda-ku
Tokyo 100-7036
Japan
Tel: +81 3 6889 7000
Fax: +81 3 6889 8000
hiromi_hattori@noandt.com
yuichi_miyashita@noandt.com
takuma_kaneko@noandt.com
www.noandt.com/en

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